Pain at the Pump;

Profits in the Boardroom

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American Progress Action Fund

Pain at the Pump: Profits in the boardroom

Americans are feeling the pain of higher oil and natural gas prices. According to a recent CBS News poll, 86 percent of people have been affected by higher gasoline prices "some" or "a lot."[1] A recent Associated Press/Ipsos poll showed that 70 percent believe that higher gasoline prices will cause financial hardship for them or their family.[2] A predicted colder winter and the high price of natural gas will further squeeze family budgets. Yet while ordinary Americans suffer under the weight of high energy prices, the world's largest energy conglomerates are enjoying record-breaking profits.

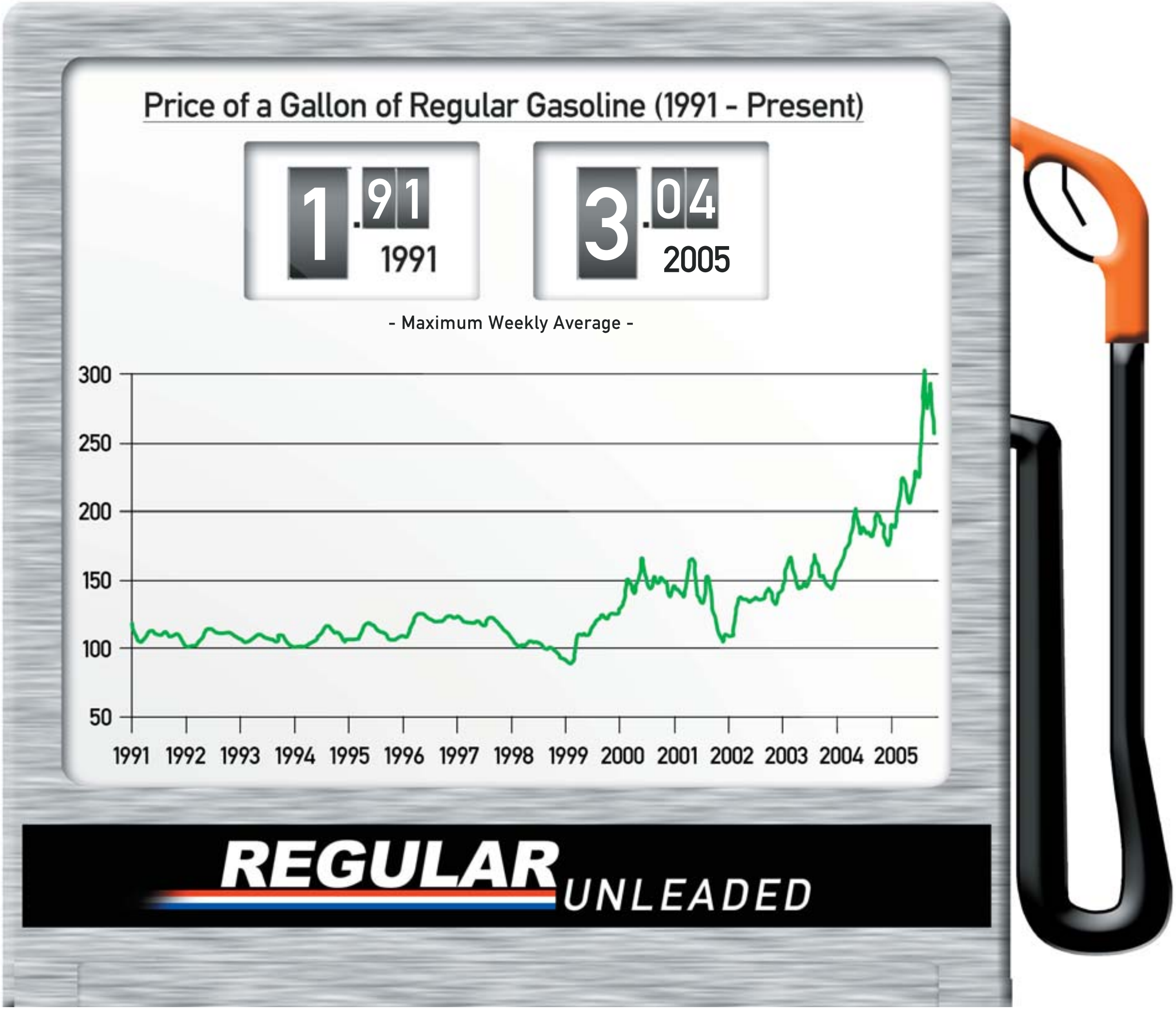
According to *The Washington Post*, the 2004 profits for ExxonMobil, Chevron, and ConocoPhillips broke records across all industries.[3] In fact, last year, at over $25 billion, ExxonMobil booked the highest profit of any company in any year in history, and its quarterly profits so far this year put it on track to break its own record. Yet, oil company memos show that they made part of these profits by constraining refining capacity to drive up prices. These record profits have not only more than doubled CEO salaries, but they have driven up political contributions by a staggering $450 million in the past six years. So, while consumers are paying more at the pumps and on their heating bills, oil companies are getting billions in tax breaks and sweetheart deals from the Bush administration and their congressional allies.

Rising prices for consumers

To put the current price of gasoline and natural gas in context, we examined the average weekly price of a gallon of regular gasoline and the monthly average price of residential natural gas as reported by the Energy Information Agency (EIA). As shown in Figure 1, from 1991 to 2002, gasoline prices remained relatively stable with only some slight fluctuation, making the recent steady climb in prices over the past two and half years all the more shocking. Since early 2002, we have seen a steady rise in the average price of gasoline, even before the impact of Hurricanes Katrina and Rita and the subsequent sharp jump in prices. While the cost of natural gas increased slightly from 1991 to 2000, Figure 3 shows that the price has risen dramatically since 2001. On October 25, natural gas futures traded at an all time high.

Since January 2002, the price of a gallon of regular gasoline increased $2, a 174 percent climb, and the residential cost of a thousand cubic foot of natural gas is up about $4, a 50 percent increase. Despite these burdens on consumers, the administration and Congress have done little to increase conservation or energy efficiency, or take bold steps toward alternative sources of energy. Instead, conservatives have demonstrated their commitment to supply-only solutions, like drilling in protected areas off our coasts and in Alaska, undercutting our economic, environmental and national security interests in favor of oil and gas companies that are enjoying record profits.

Figure 1



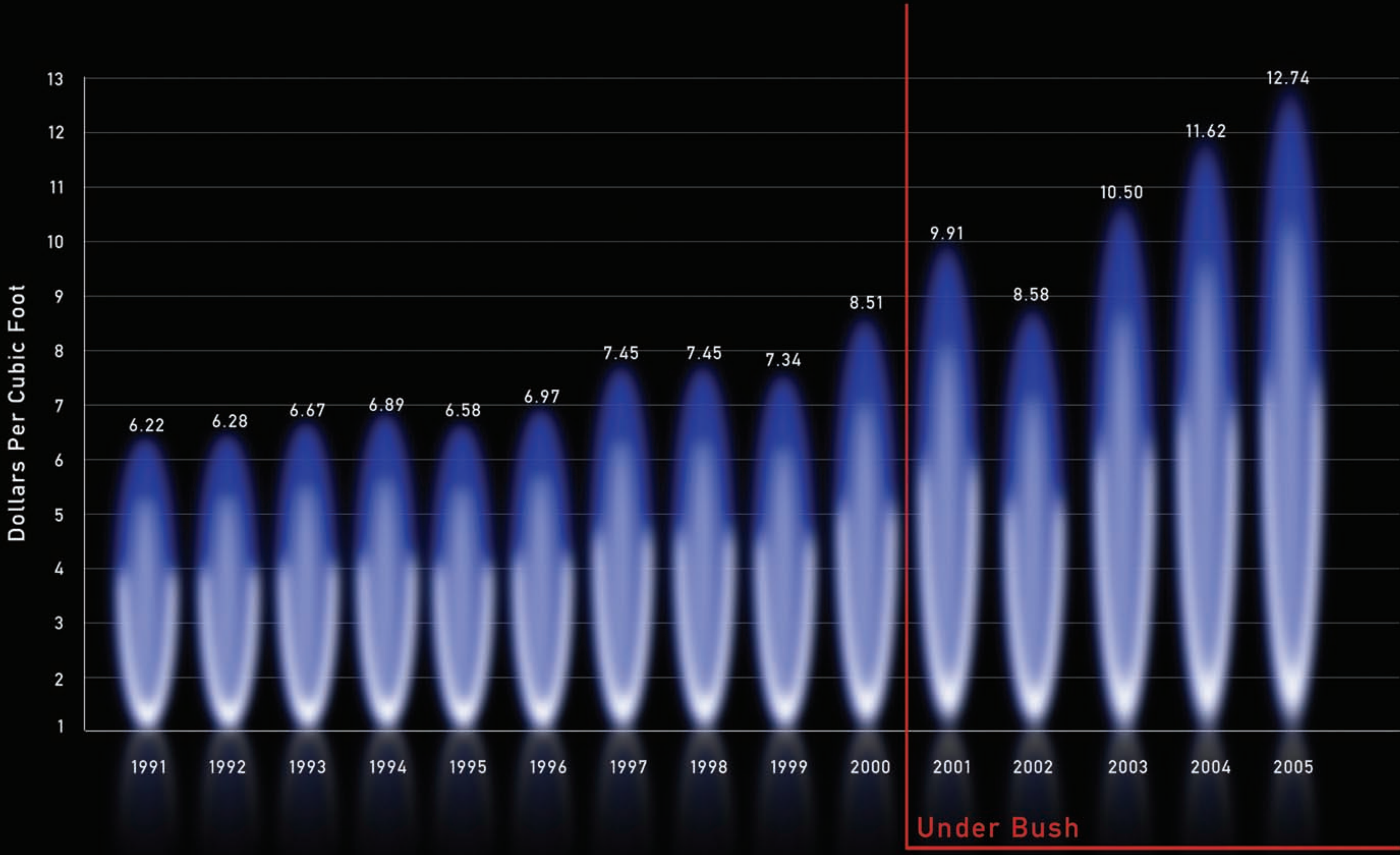
Source: Energy Information Administration;
http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_history.html

Figure 2

Source: Energy Information Administration;
http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_history.html

Natural Gas

AVERAGE RESIDENTIAL PRICE

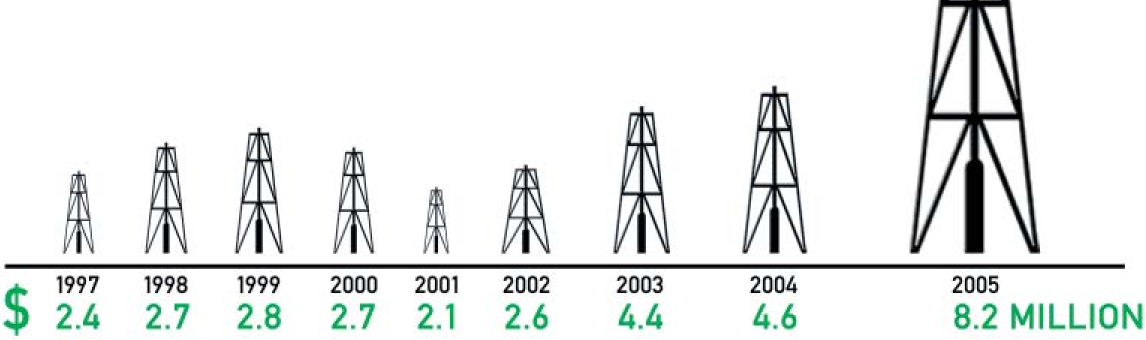


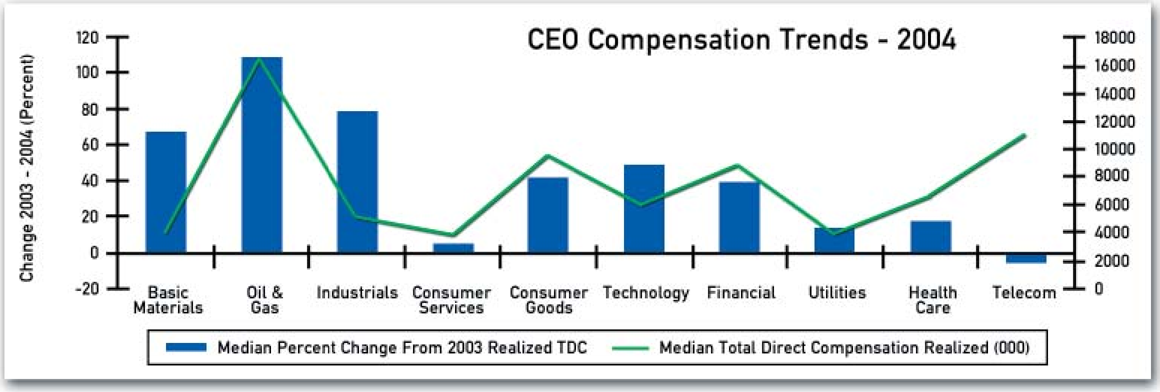
Source: Energy Information Administration. http://tonto.eia.doe.gov/dnav/ng/hist/n3010us3m.htm

Figure 4

Energy Industry CEO Compensation

Source: Forbes annual report on CEO compensation;
http://www.forbes.com/2005/04/20/05ceoland.html





Source: Wall Street Journal, CEO Compensation Survey, April 11, 2005.

Rising Pay for CEOs

Although consumers are feeling the pinch, the high energy prices have been quite a boon to energy companies and the people who lead them. Over the same period that we have seen tremendous growth in the price of gasoline and natural gas, we have seen an even greater rise in the compensation received by energy industry CEOs (Figure 4). In fact, since 2002, their median compensation has increased by 215 percent.[4]

This rise is not just a reflection of across the board increases in CEO compensation. As seen in Figure 4, oil and gas CEOs had the largest percentage change in their compensations compared with CEOs from other sectors in 2004.

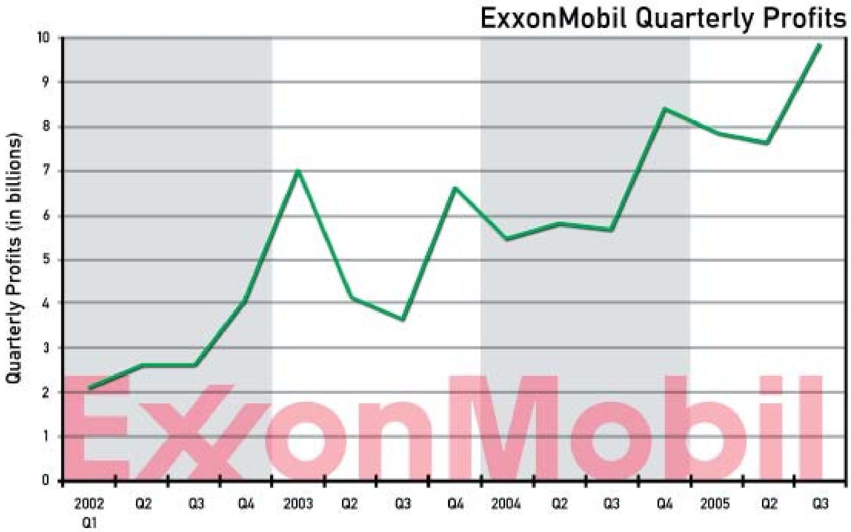
How did they earn their pay raises? Although the domestic oil industry has little control over the price of oil, it does have a significant influence over domestic refining. Internal oil company memos from the mid-1990s that have recently come to light[5] suggest a concerted effort by major refiners to constrain refining capacity in order to increase the profitability of this aspect of their business. These efforts, coupled with rising demand and the impact of hurricanes, has led to a nearly three-fold increase in the amount refiners earned on each gallon of gasoline over the past year. In September of 2004, refiners collected an average of $0.28 per gallon, but now they are collecting nearly $1.[6]

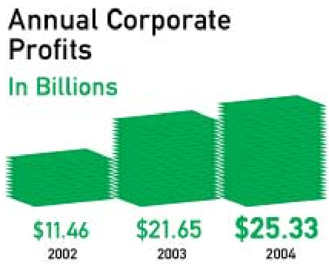
Rising Profits for Corporations

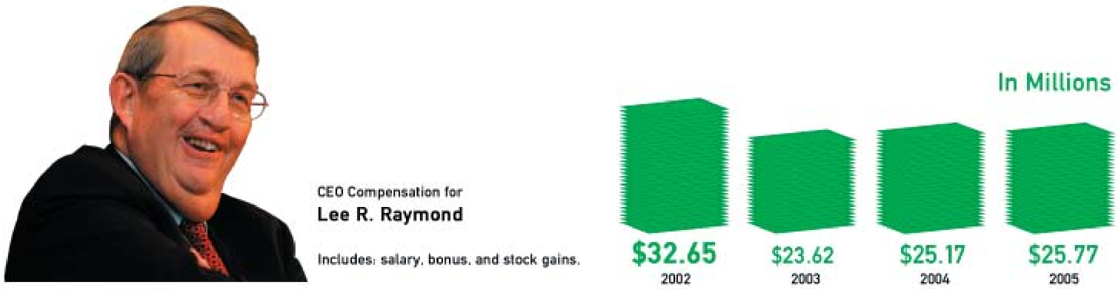
Despite damage to rigs and refineries during the devastating 2005 hurricane season, oil companies reported record third quarter profits on the back of high oil, natural gas and gasoline prices.

ExxonMobil

The growth in energy prices has been very kind to ExxonMobil, the world's largest publicly traded energy company. Thus far in 2005, ExxonMobil has announced record quarterly profits, including $9.9 billion in the third quarter. At $100 billion, it also posted the most revenue of any U.S. corporation in a single quarter.[7] Its 2004 net income of $25.33 billion was the highest annual profit of any U.S. corporation in history, and they are on track to break their own record in 2005.[8] Since 2002, the year that sharp increases in gas prices began, ExxonMobil profits have increased by 120 percent.



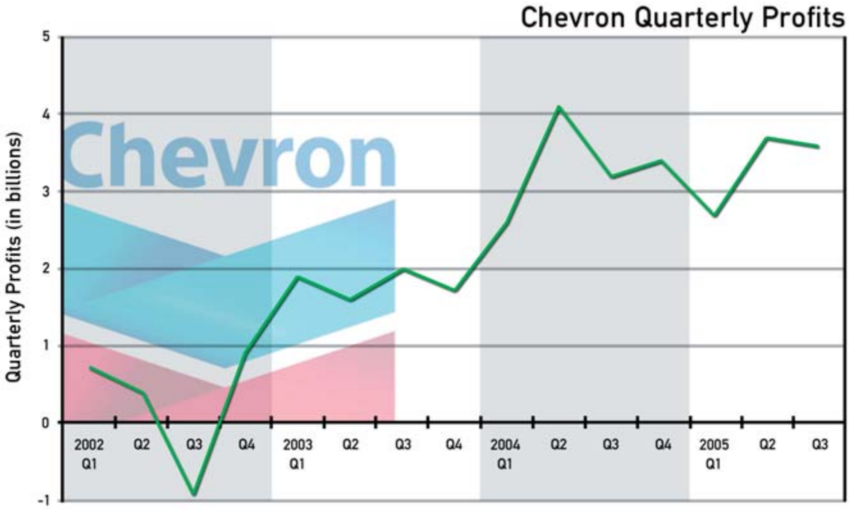


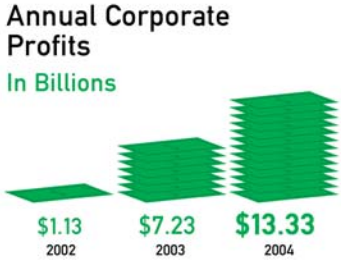


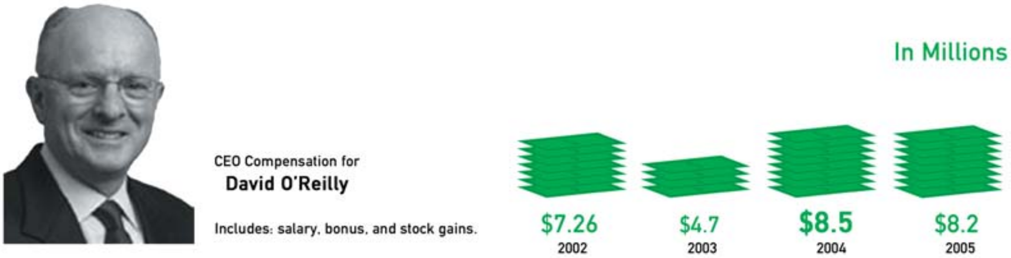
Source: ExxonMobil Financial Reports; http://ir.exxonmobil.com/phoenix.zhtml?c=115024&p=irol-CalendarEarnings

Chevron

Chevron, the second-largest U.S. energy company, is also enjoying record profits. Since 2002, Chevron profits have increased by 1,080 percent.



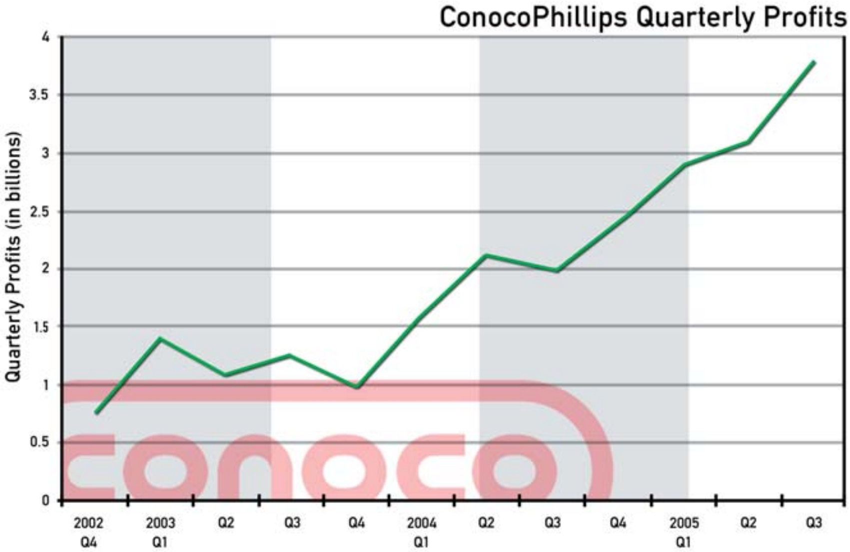


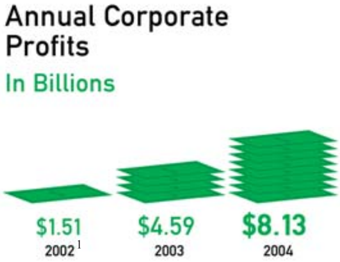


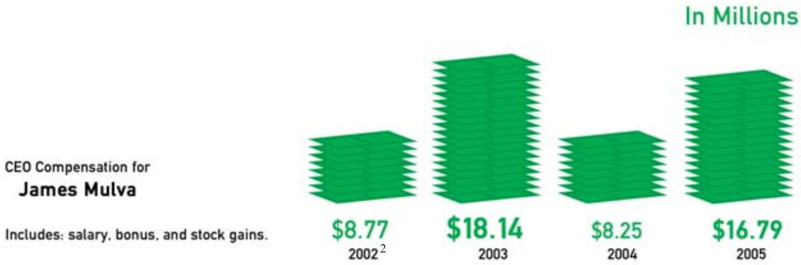
Source: Chevron financial reports; http://investor.chevron.com/ireye/ir_site.zhtml?ticker=cvx&script=700

ConocoPhillips

Created from a merger at the end of August 2002, ConocoPhillips became the third-largest U.S. energy company and has also enjoyed a tremendous growth in profit over the past two years. Since 2002, ConocoPhillips profits have increased by 438 percent to $8.13 billion.





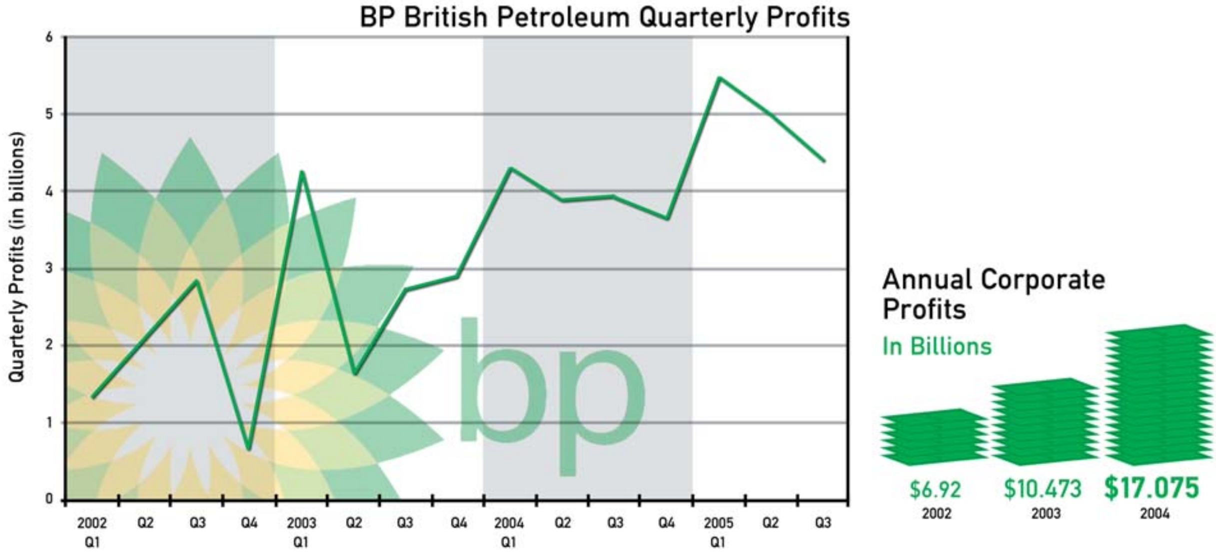


[1] Reflects 8 months of Phillips earnings and 4 months of ConocoPhillips earnings.
[2] As CEO of Phillips Petroleum

Source: ConocoPhillips financial reports; http://www.conocophillips.com/investor/reports/index.htm

BP

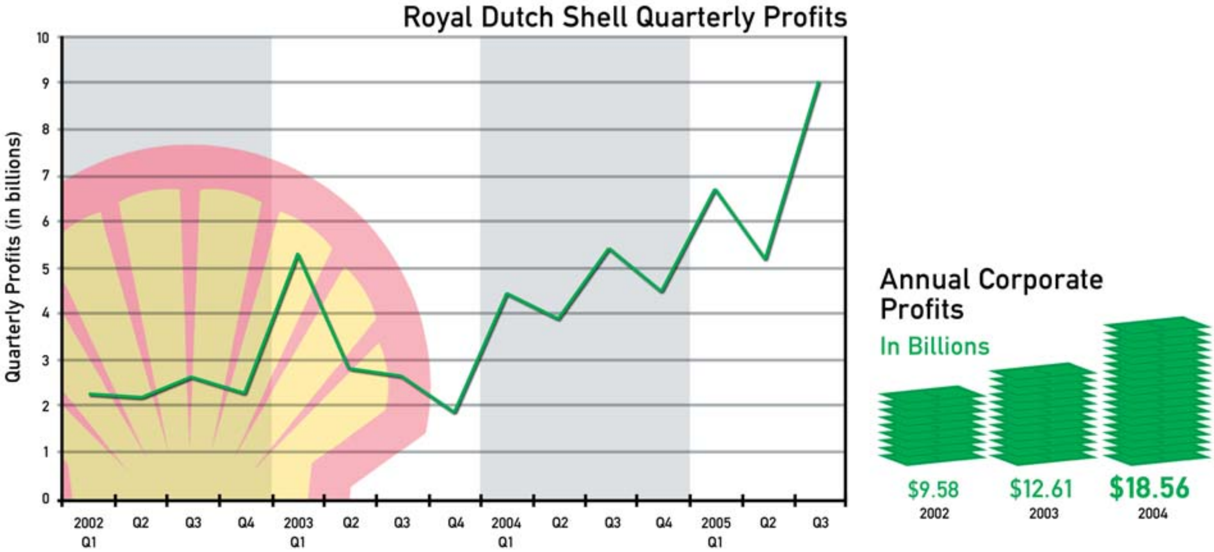
Since 2002, BP, the world's second-largest publicly traded energy company, has seen profits grow by 147 percent.



Source: BP financial reports; http://www.bp.com/subsection.do?categoryId=717&contentId=2002211

Royal Dutch Shell

Royal Dutch Shell PLC, the world's third-largest publicly traded energy company, has seen profits grow by 94 percent since 2002.



Source: Shell financial reports; http://www.shell.com/home/Framework?siteId=investor-en&FC2=/investor-en/html/iwgen/leftnavs/zzz_lhn4_0_0.html&FC3=/investor-en/html/iwgen/quarterlyresults/2005/dir_2005_qresults_index.html

Political Contributions and Lobbying

Over the past six years, oil and gas companies have spent nearly $450 million on politicians, political parties and lobbyists in order to protect their interests in Washington.[17] Since 1990, energy companies have made $183 million in political contributions alone, 75 percent of which have gone to Republicans.[18] In addition, over the past six years, nine of the top ten recipients of contributions from oil and gas companies have been Republicans.[19] In just the last election cycle, the oil and gas industry contributed more than $20 million to Republicans, four times more than the amount donated to Democrats.[20]

Table 1: Political Contributions from the Oil and Gas Industry[21]

Election Cycle	Total Contributions	Contributions from Individuals	Contributions from PACs
2006*	$1,760,228	$1,059,250	$700,978
2004*	$25,215,666	$18,058,918	$7,156,748
2002	$24,936,809	$8,309,838	$6,546,683
2000	$34,340,931	$11,121,688	$7,039,043
1998	$21,818,347	$6,255,953	$6,850,891
1996	$26,087,978	$9,415,420	$6,615,083
1994	$17,540,417	$6,399,873	$6,531,529
1992	$20,627,867	$8,676,382	$6,669,404
1990	$10,552,064	$4,549,790	$6,002,274
Total	$182,880,307	$73,847,112	$54,112,633

* These figures do not include donations of "Levin" funds to state and local party committees. Levin funds were created by the Bipartisan Campaign Reform Act of 2002.[22]

Taxpayer Giveaways

For their lavish political contributions, energy companies have been nicely rewarded in the energy bill that a Republican-controlled Congress guided into law this August. Even as oil and gas companies enjoy record profits, hard-working American taxpayers will be footing the bill for over $4 billion in industry giveaways,[23] including nearly $2 billion in tax breaks and a $1.5 billion fund for an oil and gas research consortium based in Rep. Tom DeLay's district that was slipped into the recent energy bill without a vote.[24] Harder to quantify but perhaps more egregious, the Republicans' energy law also waives the requirement for oil companies to pay royalties for extracting oil and gas from federal areas in some instances. Essentially the law gives away a national resource to companies that are making record profits from high prices borne by American consumers without recouping any funds for the nation.

In the aftermath of Hurricanes Katrina and Rita, the Republican leadership in the House of Representatives was at it again. They eked out passage of the industry friendly H.R. 3893, the Gasoline for America's Security Act, 212 to 210, after holding open the vote for nearly an hour and strong-arming a handful of moderate Republicans to change their votes from no to yes. The act would ease environmental regulations and provide the profitable oil industry with new incentives to increase refining capacity, while doing nothing to help consumers or reduce demand.

Soft Money Contributions	Donations to Democrats	Donations to Republicans	% to Dems	% to Repubs
N/A	$242,870	$1,515,908	14%	86%
N/A	$4,970,926	$20,218,375	20%	80%
$10,080,288	$5,012,682	$19,914,232	20%	80%
$16,180,200	$7,043,156	$26,793,906	21%	78%
$8,711,503	$5,027,662	$16,711,088	23%	77%
$10,057,475	$5,908,925	$19,753,506	23%	76%
$4,609,015	$6,543,486	$10,981,536	37%	63%
$5,282,081	$6,943,647	$13,524,591	34%	66%
N/A	$4,040,579	$6,507,826	38%	62%
$54,920,562	$45,733,933	$135,920,968	25%	75%

Conclusion

Our oil dependence leaves our economy dangerously vulnerable to price shocks and upheavals that dampen economic growth and burden the budgets of American families. Instead of rewarding oil companies for fueling an unsustainable energy pathway, leaders in Washington should be paving the way for alternative fuels and increased efficiency – policies that reward consumers, not CEOs.

Endnotes

[1] CBS News poll. September 9-13, 2005, *available at:* http://www.pollingreport.com/energy.htm
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[22] Center for Responsive Politics, *available at:* http://www.opensecrets.org/basics/glossary.asp?ID=38
[23] U.S. PIRG and Friends of the Earth, *available at:* http://newenergyfuture.com/factsheets/subsidiespollutingindustries.pdf
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American Progress Action Fund

1333 H Street, NW, 10th Floor
Washington, DC 20005
202.682.1611
www.americanprogressaction.org